BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner

IN THE MATTER OF THE GENERIC INVESTIGATION OF THE DEVELOPMENT OF A RENEWABLE PORTFOLIO STANDARD AS A POTENTIAL PART OF THE RETAIL ELECTRIC COMPETITION RULES

DOCKET NO. E-00000A-99-0205

Snell & Wilmer
LLP
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

APPLICATION BY ARIZONA PUBLIC SERVICE COMPANY FOR REHEARING/RECONSIDERATION OF DECISION NO. 62506

Pursuant to A.R.S. § 40-253, Arizona Public Service Company ("APS" or "Company") hereby submits its Application for Rehearing and/or Reconsideration by the Arizona Corporation Commission of Decision No. 62506 (May 4, 2000). Decision No. 62506 is unjust, unreasonable and unlawful for the reasons set forth below. APS asks the Commission to vacate such decision and approve instead the Recommended Order of the presiding Hearing Officer with those amendments thereto proposed by the Company in its Exceptions of March 22, 2000.

I. INTRODUCTION

APS has had, and under the Hearing Officer's Recommended Order, would continue to have the largest solar energy program in Arizona. At present, the Company has, with Staff's approval, devoted virtually its entire $3 million annual renewables expenditure to solar electric technologies. In this proceeding, APS offered to redirect an additional $3 million per year of existing funding sources from demand-side management programs to solar. Together with the

programs of Tucson Electric Power Company ("TEP") and Salt River Project ("SRP"), this would result in more than a tripling of the funds devoted to renewable energy even if there were no incremental monies provided by either Citizens Utilities Company or any of the rural cooperatives. Moreover, APS, TEP, and SRP agreed to seek out government grants and support tax credit legislation that would further leverage these funds. All such programs could be accomplished without any increase in rates, diminution of scheduled rate decreases, or deferrals of costs to be paid for by future ratepayers. In addition, APS proposed that the higher renewable energy expenditures could begin in the year 2000 rather than in 2001 as called for in Decision No. 62506. APS was encouraged by the Recommended Order's acceptance of this type of dollar-driven and customer-supported renewables plan.

Unfortunately, Decision No. 62506 adopted a completely different approach to the promotion of renewable resources, and particularly solar electric resources, than that suggested by the Chief Hearing Officer in his Recommended Order or proposed by either of the Commission's only two constitutional constituents – utilities and utility customers . Furthermore, the Commission-sponsored amendments to the Recommended Order changed only selected portions of the order and on some occasions, only the attachment to the Recommended Order, thus leaving the final order, Decision No. 62506, bereft of any internal consistency. Even if the Commission is unwilling to change the substantive direction of Decision No. 62506, it should delete those portions of the Recommended Decision that are now inconsistent with that direction.

That being said, APS asks the Commission to carefully reconsider a Decision that goes against the express wishes of the Company's customers. The Commission should also abandon the kWh-driven portfolio standard. Such a standard, by the Commission's own findings in Decision No. 62506, places all the risk of cost overruns on Affected Utilities and their customers. A kWh-driven standard undermines that Commission's expressed intent of making the portfolio more resource diverse and more affordable.

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L.L.P.
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II. APS' CUSTOMERS DID NOT AGREE TO OR SUPPORT THE RENEWABLES SURCHARGE SUGGESTED IN DECISION NO. 62506

All of the Company's major customer groups joined APS in a comprehensive rate settlement that the Commission later approved, with amendments not relevant to our discussion herein, by Commission Decision No. 61973 (October 6, 1999). Each of these same groups were intervenors in the above proceeding. Despite repeated efforts by Staff and others to persuade APS customers that they should surrender some small portion of their recently negotiated rate reductions to finance solar development, they remained unconvinced. Without any degree of consumer backing, APS can not support the proposed renewables surcharge mechanism in Decision No. 62506.

III. THE COMMISSION SHOULD ADOPT A DOLLAR-DRIVEN RENEWABLES STANDARD RATHER THAN ONE BASED ON KWH

Finding of Fact No. 16 in Decision No. 62506 finds that a kWh-based EFPS places all the risk of cost over-runs on Affected Utilities and their customers. This reduces the incentive of solar and other renewable energy equipment vendors to bring down their costs, which in turn delays the day by which renewable energy can compete without the sort of subsidies, quotas and set-asides embodied in the EFPS.

The modified technology "phase-in" referenced as being proposed by both APS and the Six Parties, and discussed at pages 18 and 19 of Decision No. 62506, was a dollar-based percentage allocation rather than a kWh-based allocation. Because of the significantly higher cost per installed kW of solar electric resources as compared with other forms of renewable technology and their generally lower load factors, a requirement that 50% of the kWh come from solar electric sources is, in fact, a mandate that over 90% of available funding go to solar electric generation. This may well leave too little funding for a viable non-solar project such as land-fill gas or wind generation and appears to run completely counter to the intent of Commissioner Mundell Amendment No. 2, which sought to bring greater resource diversity into the EFPS. The

Commission should amend page 18 and 19 of the Order and page 2 of Attachment B thereto to indicate that the percentages indicated therein are to be percentages of total renewables funding and not kWh.[1]

IV. DECISION NO. 62506 RETAINED INCONSISTENT PORTIONS OF THE RECOMMENDED ORDER THAT SHOULD NOW BE DELETED

Decision No. 62506 rejected the "voluntary" dollar-driven approach suggested by the Recommended Order. The provisions in that Recommended Order relating to "Voluntary Commitments," "Good Corporate Citizens," "Public Review Policy," and "Consumer Choice" all relate to or are dependent upon sections of the Recommended Order that were deleted in Decision No. 62506 or substantively changed.[2] If the Commission is unwilling to change the substance of Decision No. 62506 toward that recommended by the Chief Hearing Officer, it should at least amend pages 19-21 of the Decision to be more consistent with the ultimate findings and ordering paragraphs of that same Decision.

V. CONCLUSION

Decision No. 62506 requires a rate surcharge that APS' customers neither support nor are willing to accept under terms of the Settlement Agreement approved and adopted by this Commission. It is also internally inconsistent with portions of the Recommended Order that were (APS believes) inadvertently retained in Decision No. 62506 even after the basic thrust of the Recommended Order had been changed by the Commission. To avoid future confusion and

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[1] That this was intended to refer to a dollar-based allocation is made all the more obvious by the inclusion of a category for R&D in each of the relevant years. An R&D program would likely produce zero kWh, and thus the permitted allocation of between 5 and 10% of the "kWh" to R&D is meaningless.

[2] For example, there are no "voluntary commitments" under Decision No. 62506. This portion of the Decision refers to a deleted portion of the Recommended Order. In addition, its limitation on spending for solar (lines 19-20) are inconsistent with the kWh percentages required in Attachment B to the Decision. "Good Corporate Citizens," already objectionable for the reasons set forth in the Company's Exceptions, refers to a shareholder contribution equal to 10% of a now non-existent amount and thus has been rendered meaningless and confusing. The "Public Review Policy" has been superceded by provisions of Attachment B to Decision No. 62506 and is also meaningless. "Consumer Choice," although capable of independent implementation, contains several references to now-deleted or amended portions of the Recommended Order and is simply confusing.

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argument over these inconsistencies, APS would ask that the Commission delete or amend those portions of Decision No. 62506 that are no longer relevant to or consistent with the proposed EFPS regulation set forth in Attachment B to such Decision.

RESPECTFULLY SUBMITTED this 24th day of May, 2000.

SNELL & WILMER L.L.P.

By Thomas L. Mumaw
Thomas L. Mumaw
Jeffrey B. Guldner

Attorneys for Arizona Public Service Company

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
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CERTIFICATE OF SERVICE

The original and ten (10) copies of the foregoing document were filed with the Arizona Corporation Commission on this 24th day of May, 2000, and service was completed by mailing, e-mailing or hand-delivering a copy of the foregoing document this 24th day of May, 2000, to all parties of record herein.

Vicki L. DiCola
VICKI L. DiCOLA

Mumawt\PHX\836325.1

Snell & Wilmer
L.L.P.
LAW OFFICES
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Phoenix, Arizona 85004-2202
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